

**TESTIMONY BEFORE THE UTAH TAX REVIEW COMMISSION
REGARDING TOBACCO TAXES**

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Good Afternoon – I am Michael Siler and I'm the Director of Government Relations for the American Cancer Society Cancer Action Network (ACS CAN) here in Utah.

Last session, ACS CAN, along with fifteen other health care, parent and social welfare organizations, introduced and actively supported a tobacco tax increase proposal in the Senate that would have raised the state cigarette tax by \$1.305 per pack and the tax on other tobacco products in an equivalent fashion.

When that measure failed to clear the Senate Revenue and Taxation Committee, we pursued a compromise measure in the House which would have raised the cigarette tax by \$1.00 per pack and we hoped would have been amended to raise the tax on other tobacco products by an equivalent amount.

We introduced and so strongly supported the tax proposals because we know that due to raising the price of tobacco by increasing the tobacco tax significantly, thousands of tobacco users in Utah will quit, thousands will cut back on their tobacco use, and thousands of others will not take up tobacco use.

And we also know that as a result, the significant costs incurred by this narrow base, including \$345 M in tobacco related health care costs each year, \$275 M in lost productivity costs for businesses, increased health care and insurance costs, and additional taxes, all of which are paid by the broad-base of all citizens of our state including the 88% of Utahns who don't use tobacco products, the state, our businesses, and the economy, will be reduced.

Although we lost this session, in consideration of the value and benefit the broad base in our state will receive from a significant increase in this narrow based tax, we intend to move forward for as long as it takes with this important quest.

Now to your questions:

1. About the advantages and disadvantages of imposing these taxes.

Significant advantages accrue from imposing taxes on cigarettes and other tobacco products, and frankly the higher the tax the greater the benefit. Some of these benefits are:

- Tobacco taxes serve as a deterrent to using tobacco and a reason for quitting or cutting back on tobacco use. More than 100 studies, including some funded by the tobacco industry show a proven correlation between tobacco prices and tobacco consumption. In fact, research indicates that for every 10% increase in the price of tobacco, 6.6% of youth tobacco users will quit tobacco use as will 2.2% of adult tobacco users age 18 and older.
- As a result of tobacco taxes deterring tobacco use, although still high, tobacco related health care costs, health care costs for all Utahns, insurance costs paid by individuals and businesses, and productivity costs for business are lower than they would be without a tobacco tax in place.
- And, tobacco taxes provide a consistent, reliable and stable revenue source for the state.

It is difficult for us to see much if any disadvantage of imposing tobacco taxes. Some argue that tobacco taxes add an additional economic disadvantage to low income persons who use tobacco. However, research indicates that these populations are more sensitive to price than are others and therefore raising tobacco prices by imposing tobacco taxes deters many in the population from using tobacco, thus improving their economic circumstance and their health.

Others argue that business suffer by imposing tobacco taxes. We argue the contrary. Imposing taxes causes fewer persons to use tobacco which frees up their disposable income to purchase higher margin non-tobacco goods and services.

2. As to broad-based taxes with lower rates Vs narrow based-taxes with higher rates.

We have no doubt that the assessment of broad based taxes at lower taxing rates is good tax policy. However, we believe it is impossible to employ only a broad based taxing system to serve the public, given the plethora and complexity of needs and conditions of society. Hence, the fact that taxing structures of all levels of government, including our own state, consist of a cocktail of various sorts of taxes and user fees, both broad and narrow based, including tobacco excise taxes.

In fact, we believe when a narrow-based group, such as tobacco users, causes significant cost to the broad-base, it is the responsibility of the state, in order to protect the broad-base, to discourage that behavior with the imposition of taxes or laws or both. And of course we have a great deal of precedence in both laws and taxes that currently do so.

In the case of tobacco, the significant costs associated with tobacco use in our state are a hidden tax paid by the broad base, which is really everyone, including the 88% of Utahns who don't use tobacco.

Significant increases in the tobacco tax will reduce tobacco use, tobacco related costs and the hidden tax all Utahns pay as a result of them. An increase in the tax will also generate a significant stream of consistent and reliable revenue with which to offset tobacco related costs paid by the state, including Medicaid costs.

Consequently, and consistent with the broad based taxing philosophy, taxes assessed by the broad based taxing system can either be lowered, or revenue generated by the system can be redirected to achieve benefits for more broad-based purposes.

3. In regards to revenue and tax payer behavior associated with tax increases.

As you can see from the data you have been presented by Mr. Dean on his chart titled Utah Cigarette Tax Rate and Tax Revenues, with exception of a few minor dips, as is the case with tax

revenue generated by any taxing method, tobacco taxes are a consistent and reliable source of state revenue (gray bars). But beyond being an excellent source of revenue, from this chart titled Utah Cigarette Packs Sold and Tax Revenues, , which we have developed using Mr. Dean's data, you can see that tobacco tax revenue increases substantially by increasing the tax, even though packs of taxable cigarettes sold decrease. In other words benefits from a tobacco tax increase are three fold, tax revenue increases, tobacco use decreases, and tobacco related costs decrease as well.

As to effects on taxpayer behavior, due to the proven correlation between the price of tobacco and overall consumption I mentioned earlier, we know that a good number of Utahns would quit tobacco use altogether as a result of a tax increase, others would cut back their use significantly, and many, particularly youth would not take-up tobacco use at all.

As to fugitive purchases, upon review of the data presented by Mr. Dean in his chart titled Utah Taxable Cigarette Purchases, it is evident that there is an up-tick in fugitive purchases of tobacco in conjunction with tobacco tax increases, likely via cross border or internet and mail order sales. However, as you can see, the up-tick is brief in nature and subsides in a short period of time.

And, FYI, given that this past legislative session the legislature passed legislation prohibiting internet and mail order sales and purchases of tobacco in our state, which has been identified as the fastest growing means of tax evasion, any up-tick in fugitive purchases in the future will likely be not be nearly as dramatic.

4. Concerning the use of tobacco tax revenue.

Without question we believe that a significant amount of tobacco tax revenue should be earmarked for research, costs of treatment of tobacco related diseases, particularly by the state Medicaid program, and for tobacco prevention and control programs. This is not only a means to give back to tobacco users, who after all pay the tax, but also to the balance of Utahns who pay an additional tax burden for treatment of tobacco related diseases via the Medicaid program.

Providing tobacco tax revenue to the tobacco prevention and control program provides also a means through those who wish to stop tobacco use in the future can receive counseling and medication to help them quit and is another way to give back to the tax payer.

Lastly, there is substantial and growing evidence that those who use tobacco are prone to getting all types of cancer, not just lung cancer. Since many who use tobacco are uninsured, low-income, or both, we also suggest that tobacco tax revenue go to programs that provide cancer screenings. By so doing, cancers can be detected early, survivability rates will be increased and treatment costs, much of which will be paid for this population by the state or via charity care, will be reduced.

5. And finally, in regards to a tobacco tax trust fund.

We understand the need for and concern of the legislature to build and maintain rainy day funds and find no reason that at least some of the revenue from a tobacco tax increase should not be placed in a trust fund for that purpose.

However, we do believe that significant benefit will accrue to the state via a portion of the funding going to programs on an ongoing basis like those I previously mentioned. Additionally, beyond those on-going appropriations, we would hope that a portion or all of the investment earnings that occur from funds placed in the trust fund, be deposited in the general fund to fund other health-care related programs, if even only on a one-time basis.